

April 23, 2008

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Re: Offsets

The Nature Conservancy participated in the California Air Resources Board (CARB) Offsets Workshop on April 4 and appreciated the excellent work that CARB staff did preparing and conducting the event. We were impressed with the overwhelming support for including offsets in the AB 32 implementation plan. Following are some key recommendations and positions we would like you to consider as you develop the plan.

The Nature Conservancy supports including compliance credits – known as offsets – as a critical part of a comprehensive climate policy that includes both regulated reductions and a broad cap and trade program that when implemented, will enable the state to meet the requirements of AB 32. As we recommended at the workshop, we support a two-tiered structure for capturing emission reductions from uncapped sectors. Initially, innovative and experimental activities should be deployed as “offsets” in the voluntary realm where they can demonstrate that they meet the requirements of AB 32 and are real, permanent, quantifiable, and enforceable (AB 32 Sec. 38562 (d)(1)) and additional (AB 32 Sec. 38562 (d)(2)). When they are proven to be of the highest quality and their credibility is further enhanced by compliance with climate project protocols, like those developed by the California Climate Action Registry (CCAR), and these protocols are adopted by CARB, the activities should be accepted by CARB as “compliance credits” for capped entities.

The Nature Conservancy recommends that compliance credits specifically from forests and other land based projects be incorporated into the AB 32 scoping plan. As a source of emissions, forests are part of the problem, but with their natural ability to remove and store carbon, they are also a key part of the solution. Eligible project types should include: biological sequestration from forest and agricultural activities including reforestation, afforestation, improved forest management, avoided deforestation and conservation tillage; and emissions reductions from forest and grassland conservation.

BENEFITS: As the staff report notes, including compliance credits in the AB 32 plan contributes to the success of the program because they:

- result in emission reductions from sources and sectors not regulated under the cap; some hard to reach for a variety of reasons.
- provide flexibility for covered sources to meet their compliance obligations at the least cost, contributing to economic efficiency and motivating innovation in sectors both inside and outside the cap as they seek technologies to produce yet lower cost reductions.
- facilitate linkage with other systems like the Western Climate Initiative and what may be a national and potentially international system in the not-too-distant future.

Compliance credits can provide additional benefits including,

- Timing. Producing early reductions is also an important benefit. Including compliance credits in the state's program will produce reductions quickly which is important to the atmosphere. This raises the question as to how CARB will prioritize "early actions" and account for cumulative reductions, which are critical to the total green house gas burden in the air. CARB should agree upon some method to account for the benefit of early reductions.
- Environmental co-benefits. In addition to reducing green house gases, forests and other land-based reduction projects provide important environmental co-benefits like clean water, fish and wildlife habitat, biodiversity conservation, endangered species protection, and reduction of criteria air pollutants and air toxics.
- Adaptation. In addition, well-functioning and resilient ecosystems are essential to promoting and maintaining healthy human communities. Both natural and human ecosystems will experience unavoidable impacts from the increase of green house gas already in the atmosphere. Land-based emission reduction projects not only help meet the AB 32 emission levels but also help affected ecosystems and communities begin to adapt.
- Economic efficiency. Compliance credits provide a cost-containment function while achieving greater environmental benefits than more controversial, price-caps or other financial "safety valves."

ESSENTIAL ATTRIBUTES: The staff report also properly lists the essential attributes for acceptable compliance credits, including those established in AB 32 Sec. 38562 (d). The Nature Conservancy wholeheartedly embraces these essential requirements. They are established in state law, a variety of public policies, and are international norms in the UN and EU programs. To be incorporated into the state's climate program, compliance credits must be real (and have environmental integrity), measurable, verifiable, permanent, and additional. Furthermore, the program must address leakage.

CALIFORNIA IS A MODEL: Because of its leadership on climate change, the state of California has become a model for other jurisdictions seeking to adopt comprehensive climate policy. Not only has the state established the first economy wide cap and trade system, California is actively proving the validity of a forest carbon credit market program. California has established the administrative infrastructure that demonstrates through forests how a robust, credible program can be created to produce high value compliance credits with rigor and confidence. Amongst the key milestones are:

- CARB approved the forest protocols developed by CCAR for voluntary early action in October, 2007.
- In February, 2008, CCAR verified emission reductions from the first two forest projects in California under these protocols.
- In February, 2008, the market responded with several purchases of forest carbon credits from California. Most notably, PG&E purchased 200,000 tons from the Garcia River Forest project for its PUC-approved, innovative Climate Smart program.

Demand is great for these verified reductions in the voluntary market in large part because these reductions are verified to a state sanctioned protocol. Other forest landowners are taking note and we expect the supply of these reductions available on the market to increase. This experience demonstrates that challenges about compliance credits raised in the CARB staff report on offsets can be overcome and that the concerns can be sufficiently addressed.

OTHER FACTORS:

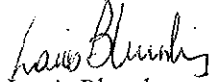
- Like the AB 32 Market Advisory Committee, The Nature Conservancy favors unlimited and unrestricted compliance credits. This will result in a broad market producing the most cost efficient and environmentally effective outcome while facilitating linkage with other program like the WCI.
- California's program should also include a role for credits from international forestry projects. The Bali roadmap indicates growing support for producing emission reductions from international forest projects and California's program should benefit from this mechanism as well.
- Like others, we share the concern that implementation of AB 32 not increase the environmental burden of any community already disproportionately affected by environmental degradation. We are eager to discuss ways to ensure that the AB 32 program not cause further negative impacts on disadvantaged and impacted communities.

CONCLUSION:

Compliance credits provide many benefits to an effective market mechanism addressing climate change. And, the enormity of the climate crisis requires that we use all tools, capitalize on all available opportunities, and act now. By including California's forests and other natural communities in the AB 32 market program CARB can optimize efforts to reach the AB 32 mandates. I have attached a letter for your consideration that addresses these issues further. In conclusion, the Nature Conservancy recommends that CARB incorporate a robust role for compliance credits in the AB 32 implementation plan.

Thank you for your consideration of our views. Should you have any questions, please contact me directly at 415-281-0439.

Sincerely,



Louis Blumberg, Director  
California Climate Change Team